A Research Proposal

on

PERFORMANCE OF SELECTED EXPORT INDUSTRIES OF PUNJAB SINCE 1990- AN ANALYSIS

Submitted to

LOVELY PROFESSIONAL UNIVERSITY

in partial fulfillment of the requirements for the award of degree of

DOCTOR OF PHILOSOPHY (Ph.D.) In (Management)

Submitted by:

Manish Gupta

Supervised by:

Dr. Jasdeep Kaur Dhami

FACULTY OF BUSINESS AND APPLIED ARTS
LOVELY PROFESSIONAL UNIVERSITY
PUNJAB

Introduction: International trade helps in enlarging the size of the market extending the international division of labour and specialization and expanding scale of production. Robinson noted that foreign trade has two functions. First, it enables a country to obtain food, materials and other things which it does not process or in which it does not have a comparative advantage. Second, almost as important, it enables a country to overcome short period bottlenecks resulting from the failure of production or exports to develop as planned Robinson (1947).

International trade helps to improve the economic conditions of an economy. We are in the era of globalization, liberalization and privatization. International trade has become essential and trend is towards less restrictions. The establishment of WTO is a move towards liberalization of the world economy. The WTO is a rule based multilateral trading system of the world. It was established on 1st January 1995 by replacing General Agreement on Tariffs and Trade (GATT), which was in existence from 1947 to 1994. India is a founder member of WTO (www.wto.org).

The present study analyses the Performance of Selected Export Industries of Punjab since 1990. Punjab state is located in northwestern India ,bordered on the north by Jammu and Kashmir and Himachal Pradesh, on the east and south by Haryana, and on the west by Pakistan. Punjab covers an area of 50,362 sq. km (19,445 sq. mi). Punjab is basically an agrarian economy. However, the importance of agriculture sector in Punjab economy has declined over the period. The Gross State Domestic Product (GSDP) of Punjab was US$ 40.6 billion in 2009-2010. The compound annual growth rate (CAGR) of GSDP from 2001-02 to 2009-2010, was about 11.8 per cent.
Punjab ranks 13th amongst all the Indian states in terms of GSDP. Agriculture and services are the two sectors that drive the state's economy. According to the Planning Commission of India, the state ranks amongst the top five states interims of per capita income. Punjab State Industrial Investment Development Corporation (PSIIDC) and Punjab Small Industry and Export Corporation (PSIEC) are jointly responsible for the development of industrial infrastructure in the state. Punjab Agro Industries Corporation (PAIC) is responsible for development of agro-based units. Punjab not only provides excellent infrastructure for business but also has lucrative offers for new business. Punjab has a very high purchasing power, highest per capita consumption of power and a large consumer durable market. Wealth is evenly distributed. The Government of Punjab is promoting the development of several special economic zones (SEZ)

across Punjab. Punjab's total exports of industrial items in the year 1995-96 were ₹ 2564.61 crore and in the year 2001-2002 these exports were ₹ 4407.90 crore. During the year 2008-09 exports were to the tune of ₹ 13888.29 crores whereas it increased to ₹15972.48 crore during the year 2009-2010.The main items of export from the State are Yarn & Textiles, Readymade Garments and Hosiery, Sports Goods, Engg. Goods, Cycle& Cycle Parts , Hand Tools and Drugs etc. Ludhiana, Jalandhar and Amritsar account for around 90 per cent of the total exports of Punjab. (Statistical Abstract of Punjab 2010)

Major industries of Punjab are:-

- Hosiery/Ready-Made garments
- Yarn and Textiles
- Cycle and Cycle Parts
- Sports Goods
- Electronic Goods
- Auto Parts
- Hand Tool/Machine Tools
- Chemical/Pharmaceutical
- Food products
- Leather/Rubber Goods.

Industrial Clusters of Punjab

- Ludhiana
- Amritsar
- Jalandhar
- Patiala
- Phagwara,
- Batala ,
- Goraya,
- Mandi Gobindgarh
- Mohali

- Dera Bassi,
- Chanalon
- Rajpura
- Goindwal

Globalization affects the exports growth. The entire liberalization process faces numerous constraints. Foreign investors are still tentative in committing funds for capital-intensive projects. The Indian/Punjab brands are still not very popular abroad and are thus hampering exports. The process of globalization has started in India. Punjab economy has also witnessed the impact of various economic policies.

Review of Literature:

A few studies have been undertaken to analyze India/Punjab export performance.

Singh Manmohan (1960) analyzed India's export trends in the 1950's, when its exports constituted mainly of traditional commodities. **Nayyar (1970)** analyzed India's export performance and policies for 1960's and has also included a few years of 1970s. **Bhagwati and Srinivasan (1970)** investigated a wider area of trade regime, that too for 1960s. **Ahluwalia (1988)** concludes that India's economic performance and policies with a summary assessment of prospects. The past record shows an economy which has gained in strength and structural maturity in many dimensions. It has certainly emerged from the pattern of sluggish growth evident up to the mid-seventies, to a much better performance subsequently, especially in the most recent years. A growth rate of 5 per cent is now definitely sustainable and could even be bettered in future if the considerable 12 unutilized potential built up form past investment in the economy is effectively exploited. There is considerable scope for reaping such benefits both in agriculture and in industry, with present levels of the rate of investment or modest improvements therein. The policy initiatives being taken in the industrial sector will help to bring about this outcome. The combined effect of a modest acceleration in economic growth and a gradual decline in population growth would put the economy on a much faster pace of per capita income growth than experienced in the past. **DeLong (2001)** The governments that followed the Rao government first the United Front and now the BJP-led coalition have continued reform and

liberalization, albeit not as rapidly as one might have hoped given the pace of economic reform in the first half of the 1990s. In the second half of the 1990s, India's governments have failed to make progress in bringing social claims on output into balance with productivity. The total deficits of the public sector--state and local governments, national government, and state-owned enterprises together--now amount to more than 10 percent of GDP. In either case, the world's economists now have an example of an economy that did *not* have remarkably favorable initial conditions but that has sustained rapid economic growth over two decades. To those for whom the East Asian miracle seemed out of reach--for whom the advice to emulate South Korea seemed so unattainable as to lead to despair--advice to emulate India may well prove more useful. **Rodrik and Subramanian (2004)** India's growth transition began in the early 1980s rather than after the crisis of 1991. The performance of the 1980s cannot be explained by Keynesian pump priming because there is a variety of time-series and cross-section evidence pointing to trend improvements in productivity indicators. Equally, this transition was not triggered by implementing the conventional litany of Washington Consensus reforms because the transition occurred a full decade before such reforms were initiated. They appeared to have been triggered by a perception on the part of the private sector that the government's attitude toward it had changed, a perception that was subsequently (in the mid-to-late 1980s), mildly validated by piecemeal reforms of the industrial licensing system. The attitudinal shift signaled by the Congress governments in the 1980s elicited a large productivity response, a phenomenon facilitated by the fact that India was far away from its income possibility frontier. **Williamson, Zagha (2002)** found that gradualism has yielded two enormous benefits to India. First, the avoidance of premature liberalization of the capital account prevented India being exposed to contagion in the Asian crisis. Second, the Hindu rate of reform has allowed time for the magnificent but somewhat cumbersome Indian democratic polity to buy into the reform program. If faster reform could have been achieved only by jeopardizing those benefits, then gradualism must surely be judged in a highly positive light. But we have argued that this sort of all-or-nothing attitude to reform, or the speed of reform, is misguided. India could (and can) move faster to put its fiscal house in order, to rid itself of remaining small industry reservations, to liberalize the labor market, to fix the power sector, and to privatize its state-owned industries, without allowing capital account convertibility or thwarting democratic debate. Its failure to

move faster in these areas slows growth and unnecessarily perpetuates poverty. **Kohli (2006)** Recent acceleration of economic growth in India was more a function of the pro-business tilt of the Indian state and less a result of the post-1991 economic liberalisation. Rapid economic growth is essential for poor India. It is also the case that India's development strategy from the Nehru period was much in need of change. However, none of this implies, or ought not to imply, that any new growth strategy that produces these outcomes is beyond critical scrutiny. India's success at growth acceleration is to be admired. However, the current growth experiment has to be kept in proper perspective. India's economic growth has not accelerated dramatically. What aggregate change is noticeable predates the liberalising reforms by a whole decade and industrial growth in the post-reform period did not pick up. Moreover, the problems posed by India's current pro-business model of development include disquieting implications for the quality of India's democracy. **Subramanian and Rodrik (2001)**The turnaround in Indian exports during 1996-97 was primarily led by a decline in the growth rate of our *export volume*. The analysis in the previous sections clearly brings out the nature of demand-side factors, as opposed to the supply-side bottlenecks, which cannot be eliminated in a short time. However, the removal of supply bottlenecks is necessary to maintain a high export growth in a sustained way. **Maertens and Basu (2007) pointed out** if India wants to sustain and raise even higher its current growth, the main bottlenecks in the Indian economy will need to be addressed. These are infrastructure (roads, expensive freight rates, power supply, ports, and airports), labour and bankruptcy regulations, and the high level of corruption in the government bureaucracy. In addition, the current erratic and low growth pattern of the agricultural sector, and the rising inequality—between states, between rural and urban areas, and within urban and within rural areas mainly since the 1990s—are a concern.

Bhardhwaj and Gupta (2007) found that liberalization has differently affected the growth of various variables. Under the impact of lIberalization, the rate of growth of COR has declined, which is a good sign, foreign demand and single factor productivities (both labour and capital) have registered an increase in rate of growth but the growth rate for the degree of mechanisation (capital intensity) has depicted a decline. It is anticipated that there would appear fall in factor productivities in next decade so government should intervene and adopt corrective measures to safeguard the interests of this highly promising industry of Punjab by providing help to the

producers for technological upgradation as well as by maintaining the stock of essential raw materials at its own level to provide it to the producers as per their needs. Efforts should also be made for the simplification of the procedure for getting finance. Proper care and further development of sports goods complexes should be done. Financing of various training programmes for entrepreneurs and workers, provision of regular power supply to the production units and various incentives to the firms in form of subsidies and tax exemptions are also desirable on the part of government. **Brar (1995)** observed that the growth and performance of exports depended upon its competitiveness. The domestic foreign trade policy is the crucial determinant for export performance. So it necessitated making the export promotion measures very selective and commodity specific. Thus the study brought out that there was a continuous need of identification of the growing markets and commodities in order to march with time. **Lakhwinder and Sukhpal (2000)** Punjab economy is facing an economic crisis of unprecedented scale. The rate of growth of state domestic product has declined in the 1990s and as a consequence of it, the per capita income has gone down. The top position of Punjab in comparison to faster growing states like Maharashtra in terms of per capita income has been relegated to a secondary position. If the economic crisis of Punjab economy is allowed to precipitate, then shortly other, fast-growing states like Gujarat will also overtake it. **Lakhwinder (2006)** Industrial sector of the Punjab economy clearly recorded deceleration in the post-reform period. This is contrary to what was expected at the time of adopting the market oriented reforms in the country. Despite the fulfillment of the required prerequisites for industrial investments, Punjab economy could not receive expected investment-foreign and 17 domestic. The diversification of agriculture through purely market oriented and contract farming with the private agribusiness firms has miserably failed. Only alternative option left for self sustained economic growth is to change the organization structure and involve local people to organize economic activities and eliminate the rent seeking middleman. Involvement of the farmers in agribusiness activities through cooperatives as production, manufacturing and marketing organization on the pattern of Southeast Asian countries such as Taiwan could be the best strategy for self sustaining growth. **Sidhu and Gulshan (2006)** Punjab occupies a position of pride in the industrial map of India. Before independence, there were a few manufacturing centers in Punjab which were famous for industries, viz., Batala for foundries, Amritsar for

woolen textile, Kartarpur for furniture and Ludhiana for hosiery but due to partition of the country, new industries like handtool, surgical instruments and sports goods appeared in Punjab (Lal, 1966). Now, Punjab leads in manufacture of machine and handtools, bicycle and bicycle parts, sewing machines, woolen & hosiery items and sports goods. As far as sports goods industry is concerned, it has witnessed a phenomenal growth over the past five decades and now occupies a place of prominence in Punjab's economy in view of its massive potential for employment and growth. The sports goods industry of Punjab is a highly labour intensive industry providing employment to a large number of women as well as weaker sections of the society. "The only industry which appears to offer some prospects to Punjab is sports goods" (Chandra Mohan, 2002). **Singh (1990)** The Indian bicycle industry which is more than 50 years old has experienced a number of changes in structure, organisation and growth in the last three decades, especially after the mid-1970s when several factors resulted in a new demand for bicycles in developed countries. The 1980s marked a major shift in government policy towards the industry. Several new steps were taken under the policy of liberalisation and modernisation and the industry was declared a thrust area for export promotion. **Kapur (1996)** found that bicycle industry witnessed a series of impediments in exports like infrastructure, delay in expatriation of export proceeds, payment of countervailing duties for imports, exchange control regulations, advance license scheme, higher rate of interest against exports and operational hurdles at sea port. **Sidhu and Kumar (2003)** tried to locate the relative position of the sports goods industry in the small scale industrial sector of Punjab. The growth of small scale industry has been defined in terms of the variables Capital-Intensity, Partial Productivity of Labor, Partial Productivity of Capital and Captial - Output Ratio. Compound Annual Growth Rates have been worked out to record the changes in growth during the pre - liberalization as well as the post - liberalization period. Sports goods industry, when juxtaposed with other small scale industries of Punjab, was found improving its position during the liberalization period, in terms of Partial Productivity of Labour, Partial Productivity of Capital and Capital-Output Ratio as compared to the pre-liberalization period. Unfortunately, new policies remained unable to push up the relative position of sports goods industry in terms of mechanisation. **Gupta and Kumar (2008)** The present paper aims at measuring the performance of exports of leather industry by computing yearly and compound annual growth rates, making short-term forecasts and measurement of

long-term trends. Long-term trends in exports were captured by fitting ten distinct functional forms and equation of best fit was selected on the basis of yardsticks mentioned in the econometric literature. Forecasts of exports were prepared for the lead-time of five years by using Double Exponential Smoothing. Econometric benchmarks were used to test reliability and adequacy of the fitted model. **Gulshan and Sanjeev (2010)** Punjab is basically an agricultural state but it keeps proud place in industrial map of India especially the small scale industrial sector. The Auto Regressive Integrated Moving Average (ARIMA) model through Box-Jenkins approach has been used to generate forecasts regarding export of industrial goods from Punjab. The forecasts have depicted not a very bright picture ahead. These forecasts can provide Government and policy makers a direction to design policies accordingly to push up growth in this sector. The government (both state and union) must design supportive industrial policies for export oriented units in state. The emphasis should be given on R&D and quality improvement. The existing export oriented units should be strengthened. Block level export training and information centres should be established. Concerted efforts on the part of Government, entrepreneurs, industrialists, farmers and producers are the need of the hour to establish a healthy state economy and its export sector.

The present study is an attempt towards filling some gaps in the available Literature. Most of the studies mentioned above have covered the period up to the end of 2008. The present study will cover the period of two decades 1990s and 2000s.

Objectives

1. To analyze the growth of Punjab economy in general and exports from Punjab specific.
2. To study the export performance of specially Yarn and Textiles, Hosiery and Ready Made Garments, Bicycle and Bicycle parts, Leather Products, Sports Goods, Hand Tools industries.
3. To find out trends in exports from Punjab since 1990 and causes of various trends.
4. To generate forecasts of exports of industrial goods from Punjab up to 2022.
5. To pin point the shortcomings and bad effects of various economic policies on Punjab's exports and to suggest measures.

Research Methodology

This study aims at, analyzing the growth of exports in Punjab since 1990 and impact of various policies on the selected industries of the state of Punjab. For this purpose, five major industries have been selected, whose exports are substantial such as Yarn and Textile Industry/Ready Made Garments/ Hosiery from Ludhiana and Amritsar, Leather Industry, Sports Industry, and Hand and Tools Industry from Jalandhar, Bicycle and Bicycle Parts from Ludhiana.

To find out performance of these selected industries, the five export houses from each industry will be selected, on the basis of their importance in the industry.

Primary data will be generated by a structured interview to illicit information on various economic policies, there impact on the exports from Punjab.

The secondary data will be obtained from the following sources

1. CIIC- Confederation of Indian Industry, Chandigarh/New Delhi.
2. Export Promotion Council, State of Punjab, Chandigarh.
3. Various Statistical Abstracts of Government of India and Punjab.
4. Punjab National Bank, Ludhiana
5. Punjab State Industrial Corporation, Chandigarh.
6. Indian Institute of Foreign Trade, New Delhi.
7. Indian Council of World Affairs (ICWA), New Delhi.
8. D.G.C.I & S, Calcutta.
9. Government of India,- Ministry of Commerce, New Delhi.
10. Government of India, Economic Survey (various issues) Ministry of Finance, New Delhi.
11. Annual Reports (various issue) Ministry of Commerce and Industry, New Delhi.
12. Government of Punjab, Economic Survey (various issues), Chandigarh.
13. Reserve Bank of India
14. Directorate of Industries of Punjab, Chandigarh.
15. Engineering Export Promotion Council, India.

16. Sports Goods Export Promotion Council, India
17. Council of Leather Exports, India.
18. Apparel Export Promotion Council, India.
19. Cotton Textile Export Promotion Council, India
20. Synthetic & Rayon Textile Export Promotion Council, India
21. Wool & Woolens Export Promotion, India
22. State Bank of India, Special Commercial Branch, Jalandhar
23. State Bank of India Zonal Office, Ludhiana

Compound growth rates will be calculated both for rise and fall in exports and profitability of the firms. It will be assumed that other things remaining the same that if the growth rate of profitability is higher than the growth rate of exports, then we can say that the impact of policies is positive, but where either the export's growth rate is higher than the profitability growth rate or comparatively both are fallen, then we can say that the impact of policies is negative.

Projections of exports from Punjab will be made on the basis of its actual exports since 1990. These projections will be made with the help of Box-Jenkins' ARIMA (Auto Regressive Integrated Moving Average) model.

$$ARIMA(1,1,1)$$
$$(1-\phi B)(1-B)X_t = (1+\theta B)Z_t$$
$$(1-\phi B - B + \phi B^2)X_t = (1+\theta B)Z_t$$
$$(1-B-\phi B+\phi B^2)X_t = (1+\theta B)Z_t$$
$$X_t - X_{t-1} - \phi X_{t-1} + \phi X_{t-2} = Z_t + \theta Z_{t-1}$$
$$\Rightarrow X_t = X_{t-1} + \phi X_{t-1} - \phi X_{t-2} + Z_t + \theta Z_{t-1}$$

Projections will be made on following assumptions.

1. Relative price structure remains the same.

2. The growth rate of income assumed to be constant.
3. The Punjab export prices remain either competitive or favourable to world export prices.

Time series analysis will be used for calculating the different trends.
An important aspect of the study will be covered by making useful discussions with the experts. In this process much of the relevant unpublished information will be made available.

Tentative Scheme of Chapertisation

The study will contain six chapters.

Chapter 1 the first chapter will be devoted to the introduction to the subject.

Chapter 2 will focused at review of literature.

Chapter 3 will presents industrial development of Punjab and its exports.

Chapter 4 will be focused at the performance of selected export industries of Punjab.

Chapter 5 will include the forecast and trends in exports from Punjab since 1990, causes of various trends.

Chapter 6 the last chapter gives a summary of major findings and policy suggestions of the study.

References:

1. Basu K; Maertens A.(2007), "The Patterns and Causes of Economic Growth in India", *Oxford Review of Economic Policy*, 23(2),143-167.
2. Bharadwaj R.P.; Kumar G. (2007),"Performance of Sports goods Industry in Punjab", *Indian Management Journal* 11, 49-65.
3. Bradford DeLong .J (2001), "India Since Independence: An Analytic Growth Narrative". http://www.j-bradford-delong.net/Econ_Articles/India/India_Rodrik_DeLong.PDF

4. Brar J. S. (1995), "Elasticities of Demand for India's Export to EEC: An Econometric Analysis", *Foreign Trade Review*, July-Dec, pp. 88-101.
5. Nayyar (2007), "India's Exports and Export Policies in the 1960s", *Cambridge University press*.
6. Gupta, S.; Kumar, G. (2008),"Growth Performance and Forecasts of Exports of Leather Goods Industry in Punjab", Foreign Trade Review, 43(1), pp.27-41.
7. Gulshan S.; Sanjeev G(2010), "Forecasting Exports of Industrial Goods from Punjab-An Application of Univariate ARIMA Model", Annals of the University of Petroşani, Economics, 10(4), 169-180
8. Bhagwati J.N. ; Srinivasan T.N. (1970), "Foreign Trade Regimes and Economic Development" India (Macmillan)
9. Kapur G.(1996), "Bicycle Exports prospects and problems, Indian Bicycle Ambassador
10. Kohli A (2006), "Politics of Economic Growth in India", 1980-2005 Part II: The 1990s and Beyond, *Economic and Political Weekly*, April 8.
11. Manmohan Singh (1964),"India's Export Trends and Prospects for self sustained growth" , London, *Clarendon Press, Oxford*.
12. Nanda S. (1988), "Forecasting: Does the Box-Jenkins Model Work Better Than Regression", *Vikalpa*, 13(1), 53-61
13. Nanda P.; Raikhy, P.S. (2000), "Exports from Punjab- Performance and Potentials, Punjab Economy-Emerging Issues, Guru Nanak Dev University Press: Amritsar
14. Robinson E.A.G., (1974), "The Economic Development", London, Macmillan Press Ltd, p. 307
15. Rodrik D.;Subramanian A, (2004), "From 'Hindu Growth' to Productivity Surge: The Mystery of the Indian Growth Transition," NBER Working Paper No. w10376, March
16. Sidhu H.S.; Kumar, G. (2003),"Growth Performance and Prospects of Sports Goods Industry in Punjab", *Indian Journal of Applied Economics*, 3(1),122-135

17. Sidhu H.S.; Kumar G (2006), "Growth Performance and Prospects of Sports Goods Industry in Punjab", *Indian Journal of Applied Economics*, Vol.3, No.1, pp.122-135.

18. Singh S Pal (1990), "*Bicycle* industry since independence: Growth, structure and demand" , *Economic and Political Weekly*, 25(34), 98-109

19. Singh L.;Singh L(2002), "Deceleration of Economic Growth in Punjab: Evidence, Explanation and a Way-Out", *Economic and Political Weekly*, 37(6), February 9.

20. Singh L (2006),"Deceleration of industrial growth and rural industrialization strategy for Indian Punjab", *Journal of Punjab Studies* 2 12 (2005),271-284.

21. Williamson J.;Zagha R (2002), "From the Hindu Rate of Growth to the Hindu Rate of Reform", Working Paper No. 144, *Center for research on economic development and policy reform*, Stanford University.

Web sites

22. http://www.wto.org
23. *http://planningcommission.nic.in/aboutus/speech/spemsa/msa020.pdf*

Government Documents

24. Government of Punjab (2010): Statistical Abstract of Punjab 2010.